

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

**Investigation by the Department on its own motion as)
to the propriety of the rates and charges set forth in)
the following tariff: M.D.T.E. No. 14, filed with the) D.T.E. 06-61
Department on June 16, 2006, to become effective July)
16, 2006, by Verizon New England, Inc. d/b/a Verizon)
Massachusetts)**

REBUTTAL PANEL TESTIMONY

OF

**AUGUST H. ANKUM, PH.D.
WARREN R. FISCHER, C.P.A.**

On behalf of

Broadview Networks, Inc.; DSCI Corporation; Eureka Telecom, Inc. d/b/a InfoHighway
Communications; Metropolitan Telecommunications of Massachusetts, Inc., a/k/a
MetTel; New Horizon Communications; and One Communications (collectively
“CLEC Coalition”)

September 12, 2006

PUBLIC VERSION

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
A. Qualifications of Panel Members.....	1
1. <i>Qualifications of August H. Ankum</i>	1
2. <i>Qualifications of Warren R. Fischer</i>	3
B. Purpose and Summary Of Recommendations.....	4
1. <i>Statement of Purpose</i>	4
2. <i>Summary and Recommendations</i>	5
II. VZ-MA’S AVOIDED COST STUDY IGNORES VZ-MA’S AVOIDANCE OF COSTS CLASSIFIED AS “INTERSTATE”	15
III. VZ-MA IMPROPERLY REDUCES THE RESALE DISCOUNT BY COUNTING REVENUE FROM SERVICES NOT SUBJECT TO RESALE	22
A. Overview	22
B. Revenues From Services that Should Not Be Included in the Denominator	25
1. <i>Sub-Account Revenues “Other Cellular” Should Be Excluded</i>	25
2. <i>Sub-Account Revenues “Pub Tel Access Ln to IPPS-Recr” Should Be Excluded</i>	25
3. <i>Sub-Account Revenues “Pub Tel Access Ln to IPPS-Nonrc” Should Be Excluded</i>	26
4. <i>Sub-Account Revenues “No Description” Should Be Excluded</i>	26
5. <i>Sub-Account Revenues “Interco Bas Sv Rev” Should Be Excluded</i>	27
6. <i>Sub-Account Revenues “Collocation Rec/Non Recurring” Should Be Excluded</i>	27
7. <i>Sub-Account Revenues “Oth Loc X Rev – Directory Asst” Should Be Excluded</i>	28
8. <i>Sub-Account Revenues “Wireless Directory Assistance” Should Be Excluded</i>	28
9. <i>Sub-Account Revenues “Dir Oth- CLEC Whlsale Listings” Should Be Excluded</i>	29
10. <i>Sub-Account Revenues “Special Billing Arrngmnts Rev” Should Be Excluded</i>	29
IV. VZ-MA HAS UNDERSTATED THE SALES EXPENSES THAT ARE AVOIDED	30
V. VZ-MA IGNORES ITS OWN ARMIS REPORT 43-03 FOR ACCOUNT 6623 – WHICH IDENTIFIES THE RETAIL/WHOLESALE SPLIT	33
VI. VZ-MA HAS OMITTED INDIRECT EXPENSES THAT ARE AVOIDED	40
A. Overview	40
B. Identification of Indirect Costs Following the Method of VZ-VA and VZ-DC	45
1. <i>Account 612300 - Office Equipment Expenses; Account 6723 – Human Resources; and Account 6728 – General & Administrative</i>	45
2. <i>Account 612400 - General Purpose Computer Expenses</i>	47
3. <i>Sub-Account 67110500 - Executive Expenses – Marketing Operations – C and Sub-Account 67111500 - Executive Expenses -Customer Services-C</i>	48
VII. VERIZON’S SALES AGENT COMMISSIONS SHOULD ESTABLISH THE LOWER LIMITS IN SETTING RESALE DISCOUNTS FOR CLECS.....	50
VIII. CONCLUSION	55

LIST OF EXHIBITS

- Exhibit AA/WF-1:** Curriculum Vitae - Dr. August H. Ankum
- Exhibit AA/WF-2:** Curriculum Vitae – Warren R. Fischer, C.P.A.
- Exhibit AA/WF-3:** Restated Avoided Cost Study
- Exhibit AA/WF-4:** Excerpt From Verizon Virginia Inc.’s Panel Testimony on Unbundled Network Elements and Interconnection Costs
- Exhibit AA/WF-5:** Verizon’s Confidential Supplemental E-mail Response to CLEC Coalition 1-24 (Verizon’s supplemental response was not filed with the Department)
- Exhibit AA/WF-6:** Verizon’s Supplemental Response to CLEC Coalition 1-10 (Verizon’s supplemental response was not filed with the Department)

1 **I. INTRODUCTION**

2 **A. QUALIFICATIONS OF PANEL MEMBERS**

3 **Q. PLEASE STATE THE NAMES OF THE PANEL MEMBERS**
4 **SUPPORTING THIS TESTIMONY?**

5 A. The panel members supporting this testimony are Dr. August H. Ankum and Mr.
6 Warren R. Fischer, C.P.A.

7

8 *1. Qualifications of August H. Ankum*

9 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
10 **ADDRESS.**

11 A. My name is Dr. August H. Ankum. I am a Senior Vice President at QSI
12 Consulting, Inc., a consulting firm specializing in economics and
13 telecommunications issues. My business address is 1027 Arch Street, Suite #304,
14 Philadelphia, PA 19107.

15

16 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
17 **WORK EXPERIENCE.**

18 A. I received a Ph.D. in Economics from the University of Texas at Austin in 1992,
19 an M.A. in Economics from the University of Texas at Austin in 1987, and a B.A.
20 in Economics from Quincy College, Illinois, in 1982.

1
2 My professional background covers work experiences in private industry and at
3 state regulatory agencies. As a consultant, I have worked with large companies,
4 such as AT&T, AT&T Wireless and MCI WorldCom (“MCIW”), as well as with
5 smaller carriers, including a variety of competitive local exchange carriers
6 (“CLECs”) and wireless carriers. I have worked on many of the arbitration
7 proceedings between new entrants and incumbent local exchange carriers
8 (“ILECs”). Specifically, I have been involved in arbitrations between new
9 entrants and NYNEX, Bell Atlantic, U S WEST, BellSouth, Ameritech, SBC,
10 GTE and Puerto Rico Telephone and their successor companies, including
11 Verizon. Prior to practicing as a telecommunications consultant, I worked for
12 MCI Telecommunications Corporation (“MCI”) as a senior economist. At MCI, I
13 provided expert witness testimony and conducted economic analyses for internal
14 purposes. Before I joined MCI in early 1995, I worked for Teleport
15 Communications Group, Inc. (“TCG”), as a Manager in the Regulatory and
16 External Affairs Division. In this capacity, I testified on behalf of TCG in
17 proceedings concerning local exchange competition issues, such as Ameritech’s
18 Customer First proceeding in Illinois. From 1986 until early 1994, I was
19 employed as an economist by the Public Utility Commission of Texas (“PUCT”)
20 where I worked on a variety of electric power and telecommunications issues.
21 During my last year at the PUCT, I held the position of chief economist. Prior to

1 joining the PUCT, I taught undergraduate courses in economics as an Assistant
2 Instructor at the University of Texas from 1984 to 1986.

3
4 A list of proceedings in which I have filed testimony is attached hereto as Exhibit
5 AA/WF-1.

6
7 ***2. Qualifications of Warren R. Fischer***

8 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS**
9 **ADDRESS.**

10 A. My name is Warren R. Fischer. I currently serve as Director of Business Services
11 and Research for QSI Consulting, Inc. My business address is 2500 Cherry Creek
12 Drive South, Suite 319, Denver, Colorado 80209.

13
14 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
15 **WORK EXPERIENCE.**

16 A. I have a Bachelor of Science degree in Business Administration with a
17 concentration in Accounting from the University of Colorado in Boulder,
18 Colorado. I am licensed as a Certified Public Accountant in the States of
19 Colorado and California. After graduating from the University of Colorado, I
20 worked for several years as an accountant with Deloitte & Touche conducting
21 financial audits. Thereafter, I worked for two major corporations as a financial
22 analyst. I joined AT&T Wireless Services in 1995 as a marketing analyst, and I

1 managed the preparation of annual revenue forecasts for the company's cellular
2 division. In 1996, I transferred to AT&T Corp. where I became a financial
3 manager and a subject matter expert on pricing and costing issues involving local
4 exchange and exchange access services. In 2000, I joined QSI as a Senior
5 Consultant.

6
7 A list of proceedings in which I have filed testimony is attached hereto as Exhibit
8 AA/WF-2.

9
10 **B. PURPOSE AND SUMMARY OF RECOMMENDATIONS**

11 ***1. Statement of Purpose***

12 **Q. PLEASE STATE THE PURPOSE OF THIS REPLY PANEL TESTIMONY.**

13 A. The purpose of our reply panel testimony is twofold. First, we will address the
14 issues raised in the direct testimony of Mr. Joseph S. Williams, filed on behalf of
15 Verizon New England Inc., d/b/a Verizon Massachusetts ("VZ-MA") in support
16 of VZ-MA's proposed resale discounts. Second, we will recommend adjustments
17 to VZ-MA's avoided cost study to bring the study in line with the provisions of
18 47 U.S.C. § 252(d)(3). Our recommended changes are implemented in Exhibit
19 AA/WF-3, which is a restated version of VZ-MA's avoided cost study.

2. *Summary and Recommendations*

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The stated purpose of Mr. Williams is to present a methodology to update the resale discounts for services sold in Massachusetts pursuant to Section 251(c)(4) of the Telecommunications Act of 1996 (“1996 Act”).¹ Having reviewed Mr. Williams’ testimony, however, we believe that VZ-MA’s avoided cost study is inconsistent with the provisions of Section 252(d)(3) of the 1996 Act for a number of reasons.

Specifically, we believe that adjustments to the VZ-MA avoided cost study are required for the following reasons:

1. VZ-MA’s avoided cost study mistakenly focuses solely on revenues and expenses that have been classified as intrastate. Section 252(d)(3) does not limit the calculation of avoided costs to those of classified as “intrastate” and, in fact, VZ-MA’s original avoided cost study in 1996 was based on unseparated revenues and expenses.²
2. In the calculation of its proposed resale discount percentage (a ratio of avoided expenses over revenue subject to resale), VZ-MA artificially inflates the denominator by including revenue for services and products that are not subject to resale. As a result, VZ-MA’s proposed resale discount is understated.
3. A second adjustment to VZ-MA’s denominator is required for the resale discount reflecting exclusion of VZ-MA’s Operator Services. Revenue from Operator Services sold to CLECs should be removed from this

¹ See Williams Direct, at 2.

² See VZ-MA’s response to CLEC Coalition’s First Set of Data Requests, CLEC Coalition 1-1, for a copy of the Avoided Cost Study filed by New England Telephone and Telegraph Company, d/b/a NYNEX, in D.P.U. 96-73/74, 96-75, 96-80/81, 96-93, 96-94 – Phase 2.

1 calculation since it is not subject to resale when CLECs choose to not use
2 VZ-MA's Operator Services.
3

- 4 4. VZ-MA's position that only 82.84%³ of its Sales expense (account 6612)
5 is considered avoided is inconsistent with its position that 100% of sales
6 expense is considered avoided in the cost study Verizon Virginia, Inc.
7 ("VZ-VA") filed in the Virginia arbitration case. With respect to this
8 issue, the position that VZ-MA takes is wrong and the one that Verizon
9 took in the VZ-VA avoided cost study is correct.
10
11 5. VZ-MA fails to take into account the fact that the FCC has ordered ILECs
12 to explicitly identify in their ARMIS 43-03 reports the relative
13 retail/wholesale split for Account 6623, Customer services, *for the express*
14 *purpose of assisting states in setting wholesale rates under the provisions*
15 *of the 1996 Act.*⁴ VZ-MA identifies in ARMIS Report 43-03 for Account
16 6623 that retail costs comprise 93% of total costs, significantly higher than
17 VZ-MA's special study retail/wholesale split of 83.31%.⁵
18
19 6. VZ-MA erroneously excludes as avoided costs a portion of indirect
20 expenses. Expenses in Office Equipment (account 6123), General
21 Purpose Computer expense (account 6124), Executive (account 6711),
22 Human Resources (account 6723), and General & Administrative (account
23 6728) were previously correctly identified as avoided by Verizon or
24 regulatory agencies in recent cases involving similar studies filed in other
25 states.
26

³ See Williams Direct, Exhibit 1, tab WP6, Sales Acct 6612.

⁴ *Federal-State Joint Conference on Accounting Issues, 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase II, Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, Local Competition and Broadband Reporting*, WC Docket No. 02-269, CC Docket Nos. 00-199, 80-286, and 99-301, Report and Order, 19 FCC Rcd 11732, 11737, FCC 04-149, ¶ 14 (June 24, 2004) (“*Accounting Order*”) (“We will instead require that ILECs report their wholesale and retail percentages for Account 6623, Customer services, in the ARMIS 43-03 report. This approach . . . will provide wholesale and retail information for the Commission and the states for those costs that are most relevant. Reporting in ARMIS 43-03 will result in identification of the **wholesale and retail percentages** on a state-by-state basis.”).

⁵ See Williams Direct, Exhibit 1 (avoided cost study), tab WP7 Customer Service & Bill Account 6623. Section V of our testimony discusses alternative adjustments the Department should require VZ-MA to make if it does not adopt our primary recommendation.

1 We will also discuss the sales commissions that VZ-MA pays agents that sell VZ-

2 MA services; the sales commission for its [BEGIN VERIZON

3 CONFIDENTIAL] [REDACTED]

4 [REDACTED] [END VERIZON CONFIDENTIAL].⁶ We will

5 demonstrate that the sales commissions VZ-MA pays to its agents are relevant as

6 a benchmark in setting lower limits for resale discounts for CLECs. To the extent

7 that CLECs perform a much broader scope of marketing, advertising, and

8 customer service activities (including billing and collection) than VZ-MA's

9 [BEGIN VERIZON CONFIDENTIAL] [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED].⁷ [REDACTED]

16 [REDACTED]⁸ [END VERIZON CONFIDENTIAL] Yet, the resale

17 discount proposed by VZ-MA in this proceeding for CLECs that use VZ-MA's

⁶ See VZ-MA response to CLEC Coalition's First Set of Data Requests, CLEC Coalition 1-24, Exhibit II, "Appendix A – Verizon Solutions Partner Program, Compensation Structure (Standard)," page 5.

⁷ See VZ-MA response to CLEC Coalition's First Set of Data Requests, CLEC Coalition 1-15.

⁸ See E-mail from Bruce Cohen, Associate General Counsel, Verizon, to Philip Macres, Bingham McCutchen LLP (dated Sept 8, 2006) (attached hereto as Exhibit AA/WF-5) (Confidential) (Verizon's supplemental response was not filed with the Department), pp. 1-2. [BEGIN VERIZON CONFIDENTIAL] [REDACTED] [END VERIZON CONFIDENTIAL]

1 OS/DA services⁹ is only 11.94%, [BEGIN VERIZON CONFIDENTIAL] [REDACTED]
2 [REDACTED] [END VERIZON
3 CONFIDENTIAL] Moreover, to the extent that a reselling CLEC makes a sale
4 to an end user and resells VZ-MA's services and, in doing so, prevents a Verizon
5 sales agent from making the sale, VZ-MA in a real sense *avoids* the sales
6 commission to the agent while capturing the net revenue. As such, the avoided
7 sales commission *is an avoided cost* to VZ-MA and thus the resale discount for
8 CLECs should be set no lower than the percentage sales commission.¹⁰ ([BEGIN
9 VERIZON CONFIDENTIAL] [REDACTED]
10 [REDACTED]
11 [REDACTED]¹¹ [END VERIZON
12 CONFIDENTIAL])

13
14 **Q. PLEASE STATE YOUR RECOMMENDATIONS.**

15 A. As noted, VZ-MA's avoided cost discount study suffers from a large number of
16 errors. We recommend that the Department correct these flaws by adopting our

⁹ The comparison to the lower CLEC resale discount (for CLECs that use VZ-MA's OS/DA services) is appropriate since Verizon's agents sell services that also use Verizon-provided OS/DA services.

¹⁰ A complete comparison of Verizon's sales commissions and the resale discounts for CLECs would require more details about precisely how Verizon calculates the sales commissions; this information is not available to us.

¹¹ [BEGIN VERIZON CONFIDENTIAL] [REDACTED]
[REDACTED] [END VERIZON CONFIDENTIAL]

recommendations. With these corrections, the resulting resale discounts are as follows:

	Current Resale Discount	VZ-MA Proposed	CLEC Coalition Corrected Results
Resale Discount w/ VZ OS/DA	24.99%	11.94%	23.70%
Resale Discount w/o VZ OS/DA	29.47%	14.71%	28.15%

Again, our recommended changes are implemented in Exhibit AA/WF-3, which is a restated version of VZ-MA's avoided cost study.

Q. VZ-MA TESTIMONY APPEARS TO SUGGEST THAT BECAUSE OF THE 8TH CIRCUIT DECISION, RESALE DISCOUNTS SHOULD BE REDUCED SIGNIFICANTLY; YET WHILE THE RESALE DISCOUNTS THAT YOU PROPOSED ARE LOWER THAN THE CURRENT RESALE DISCOUNTS, THEY ARE NOT MUCH LOWER. HOW DO YOU EXPLAIN THAT?

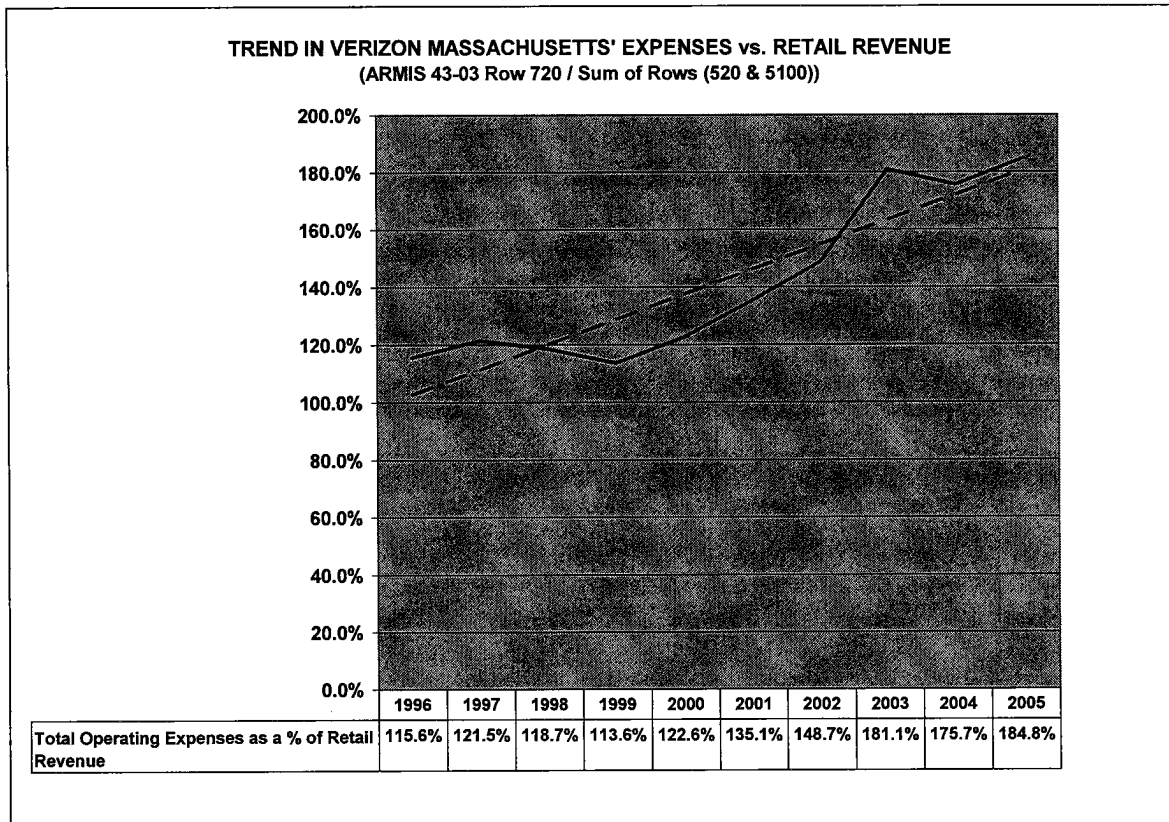
A. The observation that our recommended resale discounts is lower than the current discounts but not nearly as low as VZ-MA's recommended discounts is justified by a number of considerations.

1 First, like VZ-MA, we do *not rely* on the FCC rules that were vacated by the 8th
2 *Circuit Decision*.¹² Second, we use VZ-MA's own study and generally employ
3 VZ-MA's approach to calculating the resale discounts. Third, we consider
4 Verizon's post 8th *Circuit Decision* filings in other jurisdictions. Fourth, we also
5 address Verizon's failure to follow the specific directives of the 1996 Act and its
6 use of separated cost data. Fifth, our recommendation includes other adjustments
7 that were made to Verizon's avoided cost study to make it consistent with the
8 1996 Act. For example, VZ-MA has included certain revenues associated with
9 services that are not subject to resale; this is erroneous and we correct for it.

10
11 Next, there are trends in VZ-MA's revenues and expenses that happen to favor a
12 larger discount in any event. As will be discussed, the discounts are calculated as
13 the ratio of avoided expenses over revenue subject to resale; this means that if the
14 former increase relative to the latter, then, generally speaking, one would expect
15 the resale discounts to increase. Or, put more precisely, if expenses as a
16 percentage of revenue increased over the period since the current resale discount
17 was set, then it is reasonable to expect that a reduction in avoided expenses will
18 not necessarily translate into a linear reduction in the resale discount but rather
19 dampen any anticipated reductions. For example, a trend analysis of VZ-MA's
20 expenses and revenues in its ARMIS 43-03 report from 1996 -2005 indicates that

¹² *Iowa Utilities Board v. FCC*, 213 F.3d 744 (8th Circuit. 2000) ("8th Circuit Decision"), *aff'd in part*
and rev'd in part on other grounds sub nom. Verizon Comms. Inc. v. FCC, 535 U.S. 467 (2002)

the ratio of total operating expenses to retail revenue has increased from
approximately 116% in 1996 to 185% in 2005.¹³



Consequently, even if the pool of actual avoided costs identified by VZ-MA in its
proposed avoided cost study is less than the pool of avoided costs identified in the

¹³ Retail revenue is comprised of basic local service revenue and long distance revenue for this analysis and is assumed to represent a reasonable proxy of VZ-MA's revenue subject to resale. It does not reflect specific adjustments to remove revenue from miscellaneous services that is not subject to resale.

1 study used to set the *current/existing* resale discount rates, *the avoided cost pool*
2 *may still be larger in proportion to the revenue subject to resale in the proposed*
3 *avoided cost study and generate discounts comparable in level to the current*
4 *discounts.* While this trend analysis is by no means a detailed examination of the
5 change in avoided costs as a percentage of revenue subject to resale over the 10-
6 year period, it does provide a meaningful look at the relationship between VZ-
7 MA's expenses and revenue.

8
9 **Q. WOULD LOCAL EXCHANGE COMPETITION IN MASSACHUSETTS**
10 **BE SERIOUSLY HARMED IF THE DEPARTMENT WERE TO ADOPT**
11 **RESALE DISCOUNTS BASED ON VZ-MA'S ERRONEOUS**
12 **CALCULATIONS?**

13 A. Yes. Resale-based competition is not thriving in Massachusetts under the current
14 avoided cost structure, and a radical reduction in the resale discounts may well
15 herald the end of this mode of competition. The graph below shows the decline in
16 resale activity over the last five years.¹⁴

¹⁴ The graph is based on VZ-MA's response to CLEC Coalition's Second Set of Data Requests, CLEC Coalition 2-5, Confidential Attachment.

1
2 Thus, while resale activity in Massachusetts has declined dramatically since 2000,
3 the decline in resale also appears to have leveled off in recent years and may even
4 be beginning to recover. In view of this frail recovery at current resale rates, VZ-
5 MA's (erroneous) proposal for a radical reduction in the resale discounts – if
6 adopted by the Department – may cause resale activity in Massachusetts to end
7 abruptly.

8
9 **Q. IS THE AVAILABILITY OF RESALE INCREASINGLY IMPORTANT**
10 **BECAUSE ILECS ARE NO LONGER REQUIRED TO OFFER UNE-P**
11 **UNDER SECTION 251?**

12 A. Yes. As UNE-P is now phased out due to the FCC's findings in the *Triennial*
13 *Review Remand Order*,¹⁷ we should expect that resale is increasingly important to
14 CLECs to serve customers where CLECs do not yet have facilities in place. In
15 short, this is not the time to adopt the unreasonably low (because they are
16 erroneous) discounts proposed by VZ-MA.

¹⁶ According to the FCC's *Local Telephone Competition Status Report as of December 31, 2005*, Industry Analysis and Technology Division Wireline Competition Bureau, July 2006, (Table 4), nationwide UNE-P increased over this period from 2.8 million switched access lines to 10.8 million, or 282%. During the same period, resold switched access lines increased nationwide from 4.1 million to 6.6 million, or by 62%; this upward trend stands in contrast with the downward trend in Massachusetts, suggesting that factors other than substitution of UNE-P for resale are at work.

¹⁷ Pursuant to 47 CFR 51.319(d)(2)(iii) the transition period for UNE-P is one year from the effective date of the *TRRO*, which was March 2005.

1

2 **II. VZ-MA'S AVOIDED COST STUDY IGNORES VZ-MA'S**
3 **AVOIDANCE OF COSTS CLASSIFIED AS "INTERSTATE"**

4 **Q. DOES VZ-MA AVOIDED COST STUDY FOCUS SOLELY ON VZ-MA'S**
5 **INTRASTATE OPERATIONS?**

6 A. Yes. As discussed on page 8 of Mr. Williams' testimony, VZ-MA's avoided cost
7 study uses separated costs for determining the resale discount. Mr. Williams
8 notes:

9 Interstate services and non-regulated services are not subject
10 to resale at a discounted rate. [...] The resale discount that will
11 apply to intrastate regulated services should be calculated
12 using the expenses that are recovered in Verizon MA's
13 intrastate regulated rates. (Emphasis in original.)
14

15 **Q. DO YOU AGREE WITH VZ-MA THAT THE RESALE DISCOUNT**
16 **SHOULD BE CALCULATED USING SEPARATED COST DATA?**

17 A. No, we do not. First, there is nothing in sections 251(c)(4) and 252(d)(3) that
18 limits VZ-MA's obligations to offer services for resale to intrastate services only.

19 Section 251(c)(4) states:

20 (4) RESALE- The duty--
21 (A) to offer for resale at wholesale rates any
22 telecommunications service that the carrier provides at retail to
23 subscribers who are not telecommunications carriers; and
24 (B) not to prohibit, and not to impose unreasonable or
25 discriminatory conditions or limitations on, the resale of
26 such telecommunications service, except that a State
27 commission may, consistent with regulations prescribed by the
28 Commission under this section, prohibit a reseller that obtains at

1 wholesale rates a telecommunications service that is available at
2 retail only to a category of subscribers from offering such
3 service to a different category of subscribers.
4

5 And, Section 252(d)(3) states:

6 (3) WHOLESALE PRICES FOR TELECOMMUNICATIONS
7 SERVICES- For the purposes of section 251(c)(4), a State
8 commission shall determine wholesale rates on the basis of
9 retail rates charged to subscribers for the telecommunications
10 service requested, excluding the portion thereof attributable to
11 any marketing, billing, collection, and other costs that will be
12 avoided by the local exchange carrier.
13

14 Again, though we are not attorneys, there appears nothing in the above sections to
15 suggest that resale is limited to intrastate services, as so emphatically asserted by
16 Mr. Williams.¹⁸
17

18 **Q. DID VZ-MA USE UNSEPARATED COSTS TO CALCULATE ITS**
19 **CURRENT RESALE DISCOUNT?**

20 **A.** Yes. In its avoided cost study filed in the Phase II Consolidated Arbitrations, VZ-
21 MA used unseparated data for costs and revenues.¹⁹
22

¹⁸ Since clearly, Congress is aware of Jurisdictional Separations procedures (*see* 47 U.S.C. 410), we would have expected Congress to explicitly mandate the use of separated data if it had intended the use of separated data.

¹⁹ *See* Avoided Cost Study filed by New England Telephone and Telegraph Company, d/b/a NYNEX, in D.P.U. 96-73/74, 96-75, 96-80/81, 96-93, 96-94 – Phase 2 provided in response to CLEC Coalition’s First Set of Data Requests, CLEC Coalition 1-1.

1 **Q. IF THE DTE FINDS THAT IT HAS JURISDICTION ONLY OVER**
2 **RESALE DISCOUNTS THAT APPLY TO INTRASTATE SERVICES,**
3 **WOULD THE USE OF SEPARATED DATA BE MORE APPROPRIATE?**

4 A. No. The issue of whether the DTE has jurisdiction to set resale discounts only for
5 intrastate services should not affect how the calculation of resale discounts are to
6 be calculated. Section 253(d)(3) prescribes that wholesale prices are to reflect the
7 costs avoided by ILECs. The statute does not speak of avoided “separated” costs,
8 nor does the FCC speak of avoided separated costs in its *Local Competition*
9 *Order*.

10
11 **Q. IS VZ-MA’S USE OF SEPARATED COSTS AN UNNECESSARY**
12 **COMPLICATION?**

13 A. Yes. As is well established, the jurisdictional separations process that allocates
14 the ILEC’s expenses and revenues goes back to the beginning of the 20th Century
15 and has evolved since then to serve ever-changing public policy objectives.
16 While clearly the separations process does not entirely fail to reflect cost
17 causation (in fact, the FCC increasingly pursues policies that seek to align prices
18 and costs), it is fair to say that the jurisdictional separations process continues to
19 assign costs to the state and interstate jurisdictions based on negotiations and on
20 public policy objectives other than those embodied in the sections of the 1996 Act

1 regarding resale.²⁰ This means that as a result of the separations procedures,
2 certain costs that VZ-MA will avoid when CLECs resell VZ-MA's intrastate
3 services are allocated to the interstate jurisdiction and as such are not captured by
4 VZ-MA's avoided cost study. This is wrong – *all costs avoided by VZ-MA when*
5 *it sells services subject to the avoided cost discount should be reflected in the*
6 *resale discount.*

7
8 The following is an example of how the separations process may distort the
9 allocation of revenues and expenses. The vast majority of VZ-MA's Product
10 Management (account 6611) and Sales (account 6612) **expenses** are incurred to
11 support its regulated retail services. VZ-MA's revenue from regulated retail
12 services include Basic Local Service Revenue (ARMIS 43-04, row 4005), Long
13 Distance Message Service Revenue (ARMIS 43-04, row 4024), and
14 Miscellaneous Revenue (ARMIS 43-04, row 4033). Unseparated 2005 **revenue**
15 for these three categories services was \$1,548,380,000 in VZ-MA's 2005 ARMIS
16 43-04 report while the intrastate portion was \$1,449,539,000 or 93.6% of
17 unseparated **revenue**. By contrast, only 70.4% of Product Management and Sales

²⁰ See, e.g., *In the Matter of Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers; Transport Rate Structure and Pricing; End User Common Line Charges*, First Report and Order in CC Docket Nos. 96-262, 94-1, 91-213, and 95-72, 12 FCC Rcd 15982, 15987, ¶ 9 (May 16, 1997) (“Congress's decision to say ‘should’ instead of ‘shall’ is especially pertinent in light of Congress's repeated use of ‘shall’ in the 1996 Act. Moreover, in the Act's legislative history, Congress qualified its intention that ‘support mechanisms should be explicit, rather than implicit,’ with the phrase ‘[t]o the extent possible.’”).

1 *expenses* are allocated to the intrastate jurisdiction.²¹ That does not mean,
2 however, that in the real world the 6.4% of unseparated revenue that is assigned to
3 the interstate jurisdiction is the *cost causer* of the 29.6% of the unseparated
4 Product Management and Sales expense that are assigned to the interstate
5 jurisdiction. This jurisdictional assignment is irrelevant to the question of
6 whether these costs are actually avoided (as required by the 8th Circuit Decision)
7 when a CLEC resells VZ-MA's intrastate services. Moreover, because the issues
8 before the Department are complicated enough, there is no need to add an
9 additional layer of complication by using jurisdictionally separated data.

10
11 **Q. DOES VZ-MA'S USE OF SEPARATED DATA UNDERSTATE THE**
12 **RESALE DISCOUNT?**

13 A. Yes. Each of VZ-MA's avoided cost percentages by account on work papers
14 WP4 through WP7 in Mr. Williams' Exhibit 1 is determined using total company,
15 unseparated data. These percentages are then applied only to intrastate expenses
16 on WP3. This results in an understatement of the avoided costs that should be
17 reflected in the resale discount. For example, WP4 within Mr. Williams' Exhibit
18 1 indicates that \$5.8 million of expense attributable to customer trouble reports in
19 its Testing expense (account 6533) is avoided. Yet, after applying its intrastate
20 jurisdictional factor of 63.87% for this account, only \$3.6 million of expense is

²¹ See Williams Direct, Exhibit 1, tab WP3, *Avoided Exp by Acct*.

1 reflected in the resale discount calculation. The benefit of the remaining \$2.2
2 million, or 32.13%, of avoided costs from this account will remain with VZ-MA
3 instead of flowing through to CLECs because *there is no separate interstate*
4 *resale discount to which these cost savings can be applied.* This same type of
5 understatement occurs with all other avoided cost calculations made within the
6 VZ-MA cost study. Each calculation is based upon total Verizon or total VZ-MA
7 costs on an unseparated basis; yet, the results are applied only to interstate VZ-
8 MA costs. For the above reasons, we recommend that the Department mandate
9 the use of unseparated ARMIS data to ensure that all avoided costs are captured.

10
11 **Q. ARE UNE PRICES BASED ON THE SEPARATED COST METHOD**
12 **THAT VZ-MA USES IN THIS PROCEEDING FOR RESALE**
13 **DISCOUNTS?**

14 A. No, UNE prices are not based on separated costs. In fact, the expense
15 components of the UNE cost calculations are typically based on the same ARMIS
16 reports as the avoided cost calculations for resale discounts; yet those expenses
17 when used for setting UNE prices are generally not based on separated ARMIS
18 accounts. One of the reasons for not separating ARMIS data for UNE cost
19 calculations is that the objective of the UNE costing exercise is to capture *all*
20 *expenses* that are incurred – and not just the expenses resulting from some

1 arbitrary²² decision to allocate costs to a jurisdiction. Because the objective in
2 this proceeding is likewise to capture *all expenses* that are avoided, expenses that
3 are avoided should not be excluded merely because as a matter of accounting for
4 other purposes, they are designated as interstate.

5
6 **Q. BECAUSE THE 8TH CIRCUIT DECISION VACATED SOME OF THE**
7 **FCC'S RULES REGARDING THE DETERMINATION OF RESALE**
8 **DISCOUNTS AND BECAUSE THE FCC HAS NOT ISSUED NEW RULES,**
9 **IS IT CRITICALLY IMPORTANT TO STRICTLY CONSTRUE SECTION**
10 **252(d)(3) OF THE 1996 ACT?**

11 A. Yes. Again, Section 252(d)(3) expressly provides that resale discounts rates be
12 based on “retail rates charged to subscribers for the telecommunications service
13 requested, *excluding the portion thereof attributable to any marketing, billing,*
14 *collection, and other costs that will be avoided by the local exchange carrier.*”
15 Congress did not specify that only costs classified as intrastate costs should be
16 identified; rather, Congress mandated that all avoided costs – whether classified
17 as intrastate or as interstate – be counted and excluded.

²² The term “arbitrary” is not used pejoratively but rather it is used to indicate that allocations do not necessarily follow cost causation.

1 **Q. HOW DID YOU ADJUST VZ-MA'S AVOIDED COST STUDY TO USE**
2 **UNSEPARATED COSTS?**

3 A. Adjustment No. 1 within Exhibit AA/WF-3 changes the intrastate jurisdiction
4 percentages for revenue and expenses from the amount reported in ARMIS 43-04
5 to 100%. The result is regulated, but unseparated, revenue and expenses on tabs
6 *WP2, Revenue* and *WP3, Avoided Exp by Acct.*

7

8 **III. VZ-MA IMPROPERLY REDUCES THE RESALE DISCOUNT**
9 **BY COUNTING REVENUE FROM SERVICES NOT SUBJECT**
10 **TO RESALE**

11 A. **OVERVIEW**

12 **Q. PLEASE BRIEFLY PROVIDE AN OVERVIEW OF THIS ISSUE.**

13 A. One of the steps in VZ-MA's calculation of the resale discount involves taking a
14 ratio of intrastate avoided cost over intrastate revenue subject to resale. For
15 example, to calculate the resale discount (without VZ-MA provided OS/DA), VZ-
16 MA performs the following calculation:²³

$$\text{Resale Discount w/o OS/DA} = \frac{\text{Avoided cost}}{\text{Revenue Subject to Resale}}$$

17

²³ While the actual calculations are disaggregated by expense categories, arithmetically and conceptually VZ-MA's calculations are equivalent to this representation. See Williams Direct, Exhibit 1, Verizon MA Avoided cost Study, Tab *WPI, Discount Rates*.

1 Conceptually, the above formula captures the notion that if we know the avoided
2 cost and the revenues associated *with services that are subject to resale*, then we
3 can calculate a percentage to be applied against the retail prices that VZ-MA
4 charges its end-users. Using the actual dollars that VZ-MA identifies, the formula
5 looks as follows:²⁴

$$\text{Resale Discount w/o OS/DA} = \frac{\$190,942}{\$1,298,177} = 14.71\%$$

6
7 As can be seen from this calculation, the resale discount is sensitive to the
8 revenue related dollars included in the denominator: the more revenue dollars
9 that are included in the denominator, the larger the denominator and smaller the
10 resale discount will be; likewise, the fewer revenue dollars included the
11 denominator, the smaller the denominator and larger the resale discount will be.
12 For this reason, among others, *it is important to ensure that the revenues included*
13 *in the denominator are only for services subject to resale.*

14
15 In the sections below, we will demonstrate that VZ-MA has included revenue for
16 services that are *not subject to resale*. Specifically, VZ-MA has inappropriately
17 included revenue for the following:²⁵

²⁴ *Id.* As discussed in this testimony, we disagree with how VZ-MA has calculated the avoided costs by limiting such costs through the use of intrastate jurisdictional factors; we are simply explaining here how VZ-MA's avoided cost study works.

²⁵ These revenues are accounted for in Williams Direct, Exhibit 1 VZ- MA Avoided Cost Study, Tab: *WP2 Revenue*. The supporting sub-account information was provided by VZ-MA in Response to

Revenue Accounts	GAAP Basis Reg Account Description
50010009	Other Cellular
50015100	Pub Tel Accs Ln to IPPS-Recr
50015200	Pub Tel Accs Ln to IPPS-Nonrc
50015300	No description available
50016100	Interco Bas Sv Rev
50401000	Collocation Rec/Non Recurring
50603810	Wireless Directory Assistance
52309340	Dir Oth- CLEC Whlsale Listings
52619000	Special Billing Arrngmnts Rev

Because these services are *not subject to resale* the associated revenues should *not* be included in the denominator.

In addition to the accounts identified above, the resale discount reflecting the exclusion of VZ-MA's Operator Services contains revenue from the following account which should be excluded as well.

Revenue Accounts	GAAP Basis Reg Account Description
5060300A	Oth Loc X Rev – Directory Asst

We discuss each of these in more detail in Section III.B. *infra*. Adjustment Nos. 2 and 3 in Exhibit AA/WF-3 remove the revenue that is not subject to resale.

CLEC Coalition 1-10. Details on how these revenues are excluded by us are found in Exhibit AA/WF – 3, Tab: *Revenue by Sub-Account*.

**B. REVENUES FROM SERVICES THAT SHOULD NOT BE
INCLUDED IN THE DENOMINATOR**

***1. Sub-Account Revenues "Other Cellular" Should Be
Excluded***

**Q. DID VZ-MA INAPPROPRIATELY INCLUDE REVENUE FROM
CELLULAR OPERATIONS IN THE DENOMINATOR?**

A. Yes. As can be seen in Exhibit AA/WF-3, tab *Revenue by Sub-account*, account 50010009, *Other Cellular*, contains 2005 revenue of \$5,556.13. Because the services underlying this revenue are not available for resale and consistent with VZ-MA's exclusion of cellular revenue in accounts 50031100 and 50040000, revenue from this account should be excluded from both resale discount calculations.

***2. Sub-Account Revenues "Pub Tel Access Ln to IPPS-Recr"
Should Be Excluded***

**Q. DID VZ-MA INAPPROPRIATELY INCLUDE RECURRING REVENUE
FOR PUBLIC ACCESS LINES IN THE DENOMINATOR?**

A. Yes. Exhibit AA/WF-3, tab *Revenue by Sub-account*, shows that recurring public access line revenue of \$6,661,949.96 is recorded in account 50015100, *Pub Tel Access Ln to IPPS-Recr*. Section 5.3.1.A.1 of VZ-MA's resale tariff, DTE MA No. 14, specifically states that, "PAL and PASL services are not available for resale and are not eligible for resale discounts." Consequently, this revenue should be excluded from both resale discount calculations.

1
2 **3. Sub-Account Revenues “Pub Tel Access Ln to IPPS-Nonrc”**
3 **Should Be Excluded**

4 **Q. DID VZ-MA INAPPROPRIATELY INCLUDE NON-RECURRING**
5 **REVENUE FOR PUBLIC ACCESS LINES IN THE DENOMINATOR?**

6 A. Yes. Exhibit AA/WF-3, tab *Revenue by Sub-account*, shows that non-recurring
7 public access line revenue of \$834.18 is recorded in account 50015200, *Pub Tel*
8 *Access Ln to IPPS-Nonrc*. Section 5.3.1.A.1 of VZ-MA’s resale tariff, DTE MA
9 No. 14, specifically states that, “PAL and PASL services are not available for
10 resale and are not eligible for resale discounts.” Consequently, this revenue
11 should be excluded from both resale discount calculations.

12
13 **4. Sub-Account Revenues “No Description” Should Be**
14 **Excluded**

15 **Q. DID VZ-MA INAPPROPRIATELY INCLUDE REVENUE FOR AN**
16 **ACCOUNT WITH NO DESCRIPTION IN THE DENOMINATOR?**

17 A. Yes. Exhibit AA/WF-3, tab *Revenue by Sub-account*, shows revenue of
18 \$81,598.10 recorded in account 50015300, *No description available*. Absent any
19 identification of the functional activity for this account, the revenue should be
20 excluded from both resale discount calculations.

1 **5. Sub-Account Revenues “Interco Bas Sv Rev” Should Be**
2 **Excluded**

3 **Q. DID VZ-MA INAPPROPRIATELY INCLUDE REVENUE FOR**
4 **INTERCOMPANY LOCAL EXCHANGE SERVICES IN THE**
5 **DENOMINATOR?**

6 **A.** Yes. Exhibit AA/WF-3, tab *Revenue by Sub-account*, shows revenue of
7 \$3,268,545.36 in account 50016100, Interco Bas Sv Rev. Revenue earned from
8 intercompany sales of basic exchange service is not subject to resale. This is
9 consistent with VZ-MA’s exclusion of intercompany private line revenue from
10 the avoided cost study in Mr. Williams’ Exhibit 1.²⁶ Therefore, intercompany
11 basic exchange revenue should be excluded from both resale discounts.

13 **6. Sub-Account Revenues “Collocation Rec/Non Recurring”**
14 **Should Be Excluded**

15 **Q. DID VZ-MA INAPPROPRIATELY INCLUDE REVENUE FOR**
16 **COLLOCATION SERVICES IN THE DENOMINATOR?**

17 **A.** Yes. Exhibit AA/WF-3, tab *Revenue by Sub-account*, indicates that \$50,343.05
18 in revenue recorded in account 50401000, Collocation Rec/Non Recurring, is
19 from recurring and non-recurring collocation charges. This is wholesale revenue
20 that is not subject to resale and should be excluded from both resale discounts.

²⁶ See Exhibit AA/WF-3, tab *Revenue by Sub-account*, column entitled “Included in WP2 by Verizon by WP2 Line #,” where we verify which revenue accounts have been included or excluded by VZ-MA in its proposed avoided cost study.

1
2 **7. Sub-Account Revenues “Oth Loc X Rev – Directory Asst”**
3 **Should Be Excluded**

4 **Q. DID VZ-MA INAPPROPRIATELY INCLUDE REVENUE FROM**
5 **DIRECTORY ASSISTANCE SERVICES IN THE DENOMINATOR?**

6 A. Yes. Account 5060300A, *Oth Loc X Rev – Directory Asst*, in Exhibit AA/WF-3,
7 tab *Revenue by Sub-account*, contains revenue of \$8,639,111.00 from Verizon’s
8 directory assistance services. Since this is an operator service that it is not
9 revenue subject to resale when a CLEC provides its own operator services, it
10 should be excluded from the resale discount for VZ-MA services without operator
11 services.

12
13 **8. Sub-Account Revenues “Wireless Directory Assistance”**
14 **Should Be Excluded**

15 **Q. DID VZ-MA INAPPROPRIATELY INCLUDE REVENUE FROM**
16 **WIRELESS DIRECTORY ASSISTANCE IN THE DENOMINATOR?**

17 A. Yes. Account 50603810, *Wireless Directory Assistance*, in Exhibit AA/WF-3,
18 tab *Revenue by Sub-account*, contains \$9,764,845.41 in revenue from directory
19 assistance provided to wireless carriers. This is not a service subject to resale by
20 CLECs and should be excluded from both resale discounts.

**9. Sub-Account Revenues “Dir Oth- CLEC Whlsale Listings”
Should Be Excluded**

**Q. DID VZ-MA INAPPROPRIATELY INCLUDE REVENUE FROM THE
SALE OF DIRECTORY LISTINGS TO CLECS IN THE
DENOMINATOR?**

A. Yes. Account 52309340, *Dir Oth- CLEC Wholsale Listings*, in Exhibit AA/WF–
3, tab *Revenue by Sub-account*, contains \$5,768,518.80 in revenue from the sale
of directory listing services to CLECs. This is wholesale revenue that is not
subject to resale and should be excluded from both resale discounts.

**10. Sub-Account Revenues “Special Billing Arrngmnts Rev”
Should Be Excluded**

**Q. DID VZ-MA INAPPROPRIATELY INCLUDE REVENUE FROM THE
SALE OF DIRECTORY ASSISTANCE LISTINGS TO ALTERNATIVE
DIRECTORY ASSISTANCE PROVIDERS IN THE DENOMINATOR?**

A. Yes. Account 52619000, *Special Billing Arrngmnts Rev*, in Exhibit AA/WF–3,
tab *Revenue by Sub-account*, contains \$1,130,476.36 in revenue from the sale of
directory assistance listings to alternative directory assistance providers.²⁷ This is
not revenue subject to resale by CLECs, and it should be excluded from both
resale discounts.

²⁷ See Verizon’s Supplemental Response to CLEC Coalition 1-10 that is attached hereto as Exhibit AA/WF-6 (Verizon’s supplemental response was not filed with the Department), pp. 3-12, for explanation of the activity associated with this sub-account. See also tab *Supp. Resp. CLEC 1-10* within Exhibit AA/WF-3 for reproduction of this attachment.

1

2 **IV. VZ-MA HAS UNDERSTATED THE SALES EXPENSES THAT**
3 **ARE AVOIDED**

4 **Q. HAS VZ-MA ACCOUNTED FOR ALL AVOIDED COSTS IN SALES**
5 **EXPENSES (ACCOUNT 6612)?**

6 A. No. In its Exhibit 1, tab *WP6, Sales Acct 6612*, VZ-MA identifies 82.84% of its
7 Sales expense in account 6612 as avoided. VZ-MA's calculation of avoided costs
8 is limited to expenses incurred by two Lines of Business out of a total of seven:
9 the (1) Enterprise Solutions Group and (2) Retail Markets Group. When asked to
10 provide a detailed description of all business activities performed by each Line of
11 Business in CLEC 1-11, VZ-MA's response was limited to the definition of sales
12 expenses in 47 C.F.R. §32.6612. Additional research performed by VZ-MA's
13 counsel after a conference call on discovery issues with the CLEC Coalition
14 resulted in a finding by VZ-MA that the names of each Line of Business entity are
15 principally self explanatory. Unfortunately, this explanation does not adequately
16 disclose what each Line of Business does and how avoided and non-avoided costs
17 can be identified.

18

1 **Q. SINCE VZ-MA DID NOT ADEQUATELY EXPLAIN THE**
2 **COMPOSITION OF ITS SALES EXPENSES, WHAT ANALYSIS DID**
3 **YOU UNDERTAKE TO IDENTIFY AVOIDED SALES EXPENSES?**

4 A. Because we found VZ-MA's support lacking, we compared the avoided cost
5 study filed in this proceeding with the studies filed by Verizon Virginia, Inc.
6 ("VZ-VA") in the 2001 Virginia arbitration case in front of the FCC's Wireline
7 Competition Bureau and Verizon Washington, D.C., Inc.'s ("VZ-DC) 2001 UNE
8 and resale discount filing with the Public Service Commission of the District of
9 Columbia. These studies are significant because they represent Verizon's first
10 filing of its *revised* avoided cost methodology following the 8th Circuit Decision
11 in 2000 that vacated the FCC's avoidable cost standard in 47 C.F.R. §51.609 and
12 §51.611. In both studies, Verizon states that only actually avoided costs are
13 included in its calculations and that 100% of sales expenses are considered
14 avoided.

15
16 **Q. WHAT WAS VERIZON'S RATIONALE FOR STATING THAT 100% OF**
17 **SALES EXPENSES ARE ACTUALLY AVOIDED IN A RESALE**
18 **ENVIRONMENT?**

19 A. VZ-VA's direct testimony in Virginia stated that the following:

20 **Q. What expenses are avoided in Account 6612 – Sales?**

21 A. The Sales account reflects costs incurred in performing functions
22 related to selling products and services directly to retail customers,
23 such as the determination of individual customer needs,
24 development of customer-specific proposals, processing of sales

1 orders, and preparation of sales records. Verizon VA treats all of
2 the functions in this account as avoided because none of these
3 functions are performed by Verizon VA when it sells a service to a
4 reseller. These functions are performed by the reseller.²⁸
5

6 VZ-MA's proposed filing is inconsistent with the cost studies filed by its
7 affiliates in Virginia and Washington, D.C. Consequently, we propounded to
8 discovery to better understand VZ-MA's position.
9

10 **Q. DID VZ-MA ADEQUATELY EXPLAIN THE DIFFERENCE IN ITS**
11 **POSITION FROM THAT TAKEN BY VZ-VA?**

12 A. No. In response to discovery, VZ-MA claims that VZ-VA (Bell Atlantic) took a
13 very conservative approach and deemed the account wholly avoided, due to a
14 lack of resources and source data to perform a special study.²⁹ However, the VZ-
15 VA testimony cited above makes no mention of VZ-VA taking a conservative
16 approach. Its testimony was very definitive that none of the functions performed
17 by the sales groups are required when selling services to a reseller. It is logical to
18 assume that VZ-MA needs to devote some resources to product management in
19 account 6711 but not sales expenses to resellers.
20

²⁸ See FCC Docket Nos. 00-218, 00-249, 00-251, Verizon Virginia Inc.'s *Panel Testimony on Unbundled Network Elements and Interconnection Costs*, at p. 346 (dated July 31, 2001), excerpt of relevant pages attached hereto as Exhibit AA/WF-4.

²⁹ See VZ-MA response to CLEC Coalition's Fourth Set of Data Requests, CLEC Coalition 4-5.

1 **Q. WHAT IS YOUR RECOMMENDATION?**

2 A. VZ-MA has not explained why its accounting for sales expenses is any different
3 today from its procedures back in 2001. The DTE should therefore require VZ-
4 MA to consider 100% of its sales expenses as avoided. Adjustment No. 4 in
5 Exhibit AA/WF-3 reflects this recommendation.

6
7 **V. VZ-MA IGNORES ITS OWN ARMIS REPORT 43-03 FOR**
8 **ACCOUNT 6623 – WHICH IDENTIFIES THE**
9 **RETAIL/WHOLESALE SPLIT**

10 **Q. PLEASE BRIEFLY SUMMARIZE YOUR CONCERNS WITH VZ-MA’S**
11 **TREATMENT OF EXPENSES IN ACCOUNT 6623.**

12 A. Account 6623 contains expenses related to customer services. Recognizing that
13 most of these expenses are avoided when CLECs resell ILEC services, the FCC
14 ordered ILECs to identify separately for Account 6623 (in ARMIS Report 43-03)
15 the retail (avoided) related expenses and wholesale related expenses. VZ-MA’s
16 ARMIS Report 43-03 shows that 93% of the expenses in Account 6623 are
17 classified as retail related. VZ-MA, however, ignores the retail/wholesale split it
18 reports in its ARMIS Report 43-03 for Account 6623 and performed a “special
19 study”³⁰ that showed a much lower percentage, 83.31%, of expenses in Account
20 6623 as avoided. As we will discuss, VZ-MA should be ordered to use the

³⁰ See Williams Direct, at page 10 line 21.

1 retail/wholesale split VZ-MA reports in ARMIS, *which is a filing requirement*
2 *that the FCC specifically created to aid state commissions in setting resale*
3 *discounts.*

4
5 **Q. PLEASE DISCUSS IN MORE DETAIL THE TYPE OF EXPENSES THAT**
6 **ARE BOOKED AGAINST U.S.O.A. ACCOUNT 6623.**

7 **A.** The customer services and billing expenses to be booked against this account are
8 identified in 47 C.F.R. §32.6623 (FR Doc. 04-17077 Filed 7-26-04) as follows:

9 (a) This account shall include costs incurred in establishing and servicing
10 customer accounts. This includes:

11 (1) Initiating customer service orders and records;

12 (2) Maintaining and billing customer accounts;

13 (3) Collecting and investigating customer accounts, including collecting
14 revenues, reporting receipts, administering collection treatment, and
15 handling contacts with customers regarding adjustments of bills;

16 (4) Collecting and reporting pay station receipts; and

17 (5) Instructing customers in the use of products and services.

18 (b) This account shall also include amounts paid by interexchange carriers or
19 other exchange carriers to another exchange carrier for billing and collection
20 services. Subsidiary record categories shall be maintained in order that the
21 entity may separately report interstate and intrastate amounts. Such subsidiary
22 record categories shall be reported as required by part 43 of this
23 Commission's rules and regulations.
24

25 **Q. ARE MOST OF THE EXPENSES BOOKED IN ACCOUNT 6623**
26 **AVOIDED BY VZ-MA WHEN CLECS RESELL ITS SERVICES?**

27 **A.** Yes. As can be seen from the descriptions above, most of the activities for which
28 expenses are booked in Account 6623 are end user related; as a result, the

1 expenses will be largely avoided by VZ-MA when the CLECs assume
2 responsibility for these activities during resale of VZ-MA's services.

3
4 **Q. HAS THE FCC ORDERED THE ILECS TO SEPARATELY REPORT**
5 **WHOLESALE AND RETAIL PERCENTAGES FOR ACCOUNT 6623 TO**
6 **AID STATE COMMISSIONS?**

7 A. Yes. The FCC has explicitly recognized the importance of the wholesale/retail
8 split and ordered the ILECs to report wholesale and retail percentages for Account
9 6623.³¹ Specifically, the FCC found:

10 ... We will instead require that ILECs report their *wholesale and*
11 *retail percentages for Account 6623*, Customer services, in the
12 ARMIS 43-03 report. This approach will be far less burdensome
13 than the creation of subaccounts, and will provide wholesale and
14 retail information for the Commission and the states for those costs
15 that are most relevant. *Reporting in ARMIS 43-03 will result in*
16 *identification of the wholesale and retail percentages on a state-*
17 *by-state basis.*³²
18

19 As indicated by the FCC,³³ this finding was motivated by the recommendations of
20 the Federal-State Joint Conference on Accounting Issues ("Joint Conference"), in
21 WC Docket 02-269. The Joint Conference found that the information on
22 wholesale and retail expenses is critically important to state commissions

³¹ See *Accounting Report*, ¶ 14.

³² *Id.* (emphasis added).

³³ *Id.*, ¶¶ 9 & 14.

1 chartered with setting rates for UNEs and resale discounts. Specifically, the Joint

2 Conference found:

3 In summary, wholesale and retail data are important in
4 assessing ILEC compliance with its duty to offer for resale at
5 wholesale rates any telecommunications service that the
6 carrier provides at retail to subscribers. **Wholesale and retail**
7 **data are used in determining the appropriate discount for**
8 **setting resale rates.** With the requirement to resell wholesale
9 services at a discount, data is needed regarding retail costs
10 and what costs will be incurred when providing wholesale
11 services. ILEC retail services available for resale are priced
12 on a wholesale basis. Wholesale prices are determined on the
13 basis of subscriber retail rates, excluding portions attributable
14 to marketing, billing, collection, and other costs that will be
15 avoided by the ILEC. **Avoided costs are included in Account**
16 **6623, Customer Services.** The Commission should be guided
17 by its existing rules regarding the determination of avoided
18 retail costs in setting wholesale rates.³⁴ (Emphasis added.)
19

20 In short, the FCC specifically ordered ILECs to identify separately the
21 percentages of Account 6623 that are wholesale and retail related so as to, among
22 other reasons, aid state commissions in setting resale discounts.
23

³⁴ *Federal-State Joint Conference on Accounting Issues, 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase II, Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, Local Competition and Broadband Reporting*, WC Docket No. 02-269, CC Docket Nos. 00-199, 80-286, and 99-301, Notice of Proposed Rulemaking, App. A, In the Matter of Federal-State Joint Conference on Accounting Issues, WC Docket No. 02-269, Recommendation by Joint Conference (Oct. 9, 2003), 18 FCC Rcd 26988, 27030 [FCC 03-326] (Dec. 23, 2003) (emphasis added)..

1 **Q. DID THE JOINT CONFERENCE RECOMMEND AND THE FCC ADOPT**
2 **THE REQUIREMENT THAT ILECS IDENTIFY RETAIL AND**
3 **WHOLESALE RELATED EXPENSES FOR ACCOUNT 6623 AFTER THE**
4 **8TH CIRCUIT DECISION?**

5 **A.** Yes. The *8th Circuit Decision* on the FCC's avoided cost methodology was
6 issued in July 2000. The Joint Conference's recommendation was issued in 2003
7 and the FCC's order on the retail/wholesale split for Account 6623 was issued in
8 2004.

10 **Q. WHAT PERCENTAGE OF ACCOUNT 6623 DID VZ-MA IDENTIFY IN**
11 **2005 AS RETAIL RELATED AND AVOIDED IN ARMIS IN REPORT 43-**
12 **03?**

13 **A.** For 2005, VZ-MA reported 93% of Account 6623 to be retail related and avoided
14 when CLECs resell its services.³⁵

³⁵ See VZ-MA, ARMIS Report 43-03, Table 1. A copy of Table 1 is found in Exhibit AA/WF – 3, Tab
ARMIS 43-03.

1 **Q. HAS VZ-MA IGNORED THE PERCENTAGE OF RETAIL-RELATED**
2 **EXPENSES IT IDENTIFIES IN ARMIS REPORT 43-03 AND INSTEAD**
3 **USED A LOWER PERCENTAGE BASED ON A SPECIAL STUDY?**

4 **A.** Yes. VZ-MA ignored the percentage of retail-related expenses specific to
5 Massachusetts it identifies in ARMIS 43-03 for Account 6623. Instead, VZ-MA
6 performed a “special” study, which VZ-MA describes as follows:³⁶

7 USOA Account 6623 contains expenses for two primary
8 functions: Customer Services and Billing Operations. The
9 Financial Accounting Systems provide a short description of
10 sub-accounts that flow to the USOA 6623. For the Customer
11 Services functions, Verizon sorts these account descriptions into
12 Retail, Wholesale, and Unspecified Categories. Retail includes
13 costs associated with servicing retail end users including
14 Business/Residence Customers or Public PayPhone Customers.
15 Wholesale includes costs associated with servicing carriers and
16 include IXC (Interexchange Carriers), ICSC (Interconnection
17 Service Center), CA (Carrier Access), etc. Unspecified would
18 be anything that in general would provide administrative
19 services for retail and/or wholesale services, or for Billing
20 Operations that will be determined in the secondary analysis for
21 USOA 6623.
22

23 The analysis is implemented on Tab *WP7 CustServ&Bill Acct6623* of Mr.

24 Williams’ Exhibit 1, Verizon MA Avoided Cost Study.

25

³⁶ See VZ-MA Avoided Cost study, Exhibit 1, Tab *WP7 CustServ&Bill Acct6623*.

1 **Q. SHOULD THE DEPARTMENT ORDER VZ-MA TO USE THE**
2 **PERCENTAGE OF RETAIL RELATED EXPENSES FOR ACCOUNT**
3 **6623 THAT IS IN ARMIS REPORT 43-03?**

4 A. Yes. As discussed previously, the FCC mandated that ILECs identify the retail-
5 related expenses for Account 6623 in ARMIS report 43-03, for each individual
6 state, specifically to aid state commissions in setting resale discounts. VZ-MA
7 should not be permitted to ignore the FCC's policy objectives and to use a
8 significantly lower percentage of retail related expenses based on an *ad hoc*
9 "special report" that is – unlike ARMIS report 43-03 – not specific to
10 Massachusetts. Adjustment No. 5 within Exhibit AA/WF-3 makes this change.

11
12 **Q. IF THE DEPARTMENT DOES NOT ADOPT YOUR PRIMARY**
13 **RECOMMENDATION, DO YOU HAVE AN ALTERNATIVE**
14 **RECOMMENDATION?**

15 A. Yes. Exhibit AA/WF-3, tab *WP7, CustServ & Bill Acct6623* contains an
16 alternative adjustment labeled as Adjustment No. 5A. Two reclassification entries
17 are required in Verizon's analysis of total company Retail, Wholesale or
18 Unspecified expenses if the Department declines to adopt our primary
19 recommendation of excluding 93% of Customer Services expenses. First,
20 Customer Accounting expenses of \$41,329,663 incurred by the Verizon West
21 region in Account 662310 (Line 61) should be reclassified as Retail costs rather
22 than Unspecified to be consistent with the Verizon East region's classification of

1 Customer Accounting costs in Line 38, account 66231000, *Cs Sr Ex-Ac Mnt &*
2 *Cst Blg-EU-C*. Second, expenses in the Verizon East region account 66230500,
3 *North Only-No Desc Available*, (Line 85) should be reclassified as Unspecified
4 since there is no description of the expense in the account name. Making these
5 two reclassifications increases VZ-MA's avoided cost percentage in account 6623
6 from 83.31% to 83.66%.

7
8 **VI. VZ-MA HAS OMITTED INDIRECT EXPENSES THAT ARE**
9 **AVOIDED**

10 **A. OVERVIEW**

11 **Q. ARE CERTAIN INDIRECT EXPENSES IMPACTED WHEN VZ-MA**
12 **AVOIDS DIRECT EXPENSES?**

13 A. Yes, certain indirect expenses will be avoided as a result of avoided direct
14 expenses. For example, when VZ-MA needs fewer personnel for sales, market
15 management, customer services and billing activities, etc. as the result of
16 customers lost to resellers (activities for which VZ-MA has acknowledged that it
17 will avoid expenses), there would be some reduction in the activities and costs
18 associated with supporting departments and other indirect expenses categories:
19 fewer sales agents means fewer desks, computers, etc. The relevant accounts and
20 sub-accounts containing indirect expenses that will be impacted are the following:

1

Account/Sub Account	Account Description
612300	Office Equipment Expenses
612400	General Purpose Computers Expenses
67110500	Executive Expenses – Marketing Operations - C
67111500	Executive Expenses -Customer Services-C
672300	Human Resources
672800	General and Administrative

2

3 **Q. HAS VZ-MA GENERALLY OMITTED INDIRECT EXPENSES IN ITS**
4 **AVOIDED COST STUDY?**

5 A. Yes. VZ-MA has failed to recognize that certain indirect expenses will be
6 avoided as a result of avoided direct expenses.³⁷

7

8 **Q. DOES VZ-MA EXPLAIN WHY IT OMITTS INDIRECT EXPENSES IN ITS**
9 **AVOIDED COST STUDY?**

10 A. Not sufficiently. Mr. Williams simply states: “Such expenses are not actually
11 avoided when products are offered for resale to wholesale carriers.”³⁸ This
12 statement, however, is more a conclusion than an explanation; it also flies in the
13 face of common sense. Surely, as discussed above, a reduction in retail-related
14 activities, such as a reduced labor force (as a result of avoided activities), will
15 have ramifications for other portions of VZ-MA’s organization, such as office

³⁷ See Williams Direct, at p. 11.

³⁸ *Id.*

1 supplies, furniture (desks, chairs), computers, human resources, etc., the expenses
2 of which are captured in the accounts listed above. Mr. Williams' terse statement
3 stands in stark contrast to the detailed methodology and study that Verizon used
4 in identifying indirect costs in other jurisdictions.

5
6 **Q. HAS VERIZON ACKNOWLEDGED THAT IT AVOIDS INDIRECT**
7 **EXPENSES IN OTHER JURISDICTIONS IN PROCEEDINGS THAT**
8 **CAME AFTER THE 8TH CIRCUIT DECISION?**

9 A. Yes. Not only did VZ-MA include indirect expenses in its pre-8th *Circuit*
10 *Decision* avoided cost study under the FCC's avoidable cost standard, but Verizon
11 has also continued to recognize that indirect expenses are impacted by resale in at
12 least two other jurisdictions in the post-8th *Circuit Decision* proceedings: Virginia
13 and Washington, D.C. VZ-VA in the 2001 Virginia arbitration proceeding and
14 VZ-DC in its 2001 UNE and resale discount filing both filed avoided cost studies
15 that included avoided indirect costs.³⁹

16
17 In the 2001 Virginia arbitration case, VZ-VA provided a substantial discussion of
18 which avoided indirect expenses were impacted and how they were identified. Of

³⁹ The avoided cost studies Verizon filed in those proceedings were provided by VZ-MA in response to CLEC Coalition's First Set of Data Requests, CLEC Coalition 1-16.

1 interest is the *four step process* that VZ-VA used to identify the avoided indirect
2 expenses:⁴⁰

3 The indirect expenses were determined as follows:

- 4 (1) Each function code in the indirect expense accounts was
5 analyzed to determine if it directly supports an avoided
6 direct function.
- 7 (2) These indirect expenses were classified as either fixed or
8 variable relative to the level of retail input. If expenses are
9 fixed, they are not avoided. [...]
- 10 (3) For expenses that do vary with the level of retail output,
11 each function code was analyzed to determine the portion
12 that is avoided. As explained above, the amounts that are
13 avoided are based on the functions being supported. [...]
- 14 (4) Finally, the general and administrative expenses (Account
15 6728) that vary directly with the number of employees
16 (e.g., sickness and disability payments) are avoided based
17 on the ratio of avoided intrastate direct expenses to total
18 company intrastate direct expenses.
19

20 Again, Mr. Williams' terse observation that indirect expenses are not avoided
21 stands in stark contrast to the detailed analysis performed by VZ-VA. Clearly,
22 this change in cost analysis methodology is without merit. Consequently, we
23 propounded discovery on this issue to better understand VZ-MA's position.
24

⁴⁰ See FCC Docket Nos. 00-218, 00-249, 00-251, Verizon Virginia Inc.'s *Panel Testimony on Unbundled Network Elements and Interconnection Costs*, at pp. 358-359 (dated July 31, 2001), attached hereto as Exhibit AA/WF-4.

1 **Q. DID THE INFORMATION VZ-MA PROVIDE IN RESPONSE TO**
2 **DISCOVERY ADEQUATELY SUPPORT ITS POSITION?**

3 **A.** No. When asked to explain why VZ-MA's methodology is different than the one
4 employed by VZ-VA, VZ-MA asserted that its methodology has evolved since
5 2001.⁴¹ Verizon claims it now better understands what expenses are actually
6 avoided than it did in 2001. This is not a credible position since Verizon had five
7 years of experience following the passage of the Act to ascertain what expenses it
8 actually avoided in a resale environment. Resale was the primary form of local
9 market entry in the first few years following passage of the Act while UNE rules
10 were written and litigated and while facilities-based competition developed.
11 Intuitively, it makes no sense that zero indirect costs are actually avoided when
12 Verizon avoids direct costs such as product management, sales and operator
13 services. In what follows, we will discuss each of the accounts and sub-accounts,
14 containing indirect expenses that are impacted by resale activities.

⁴¹ See VZ-MA response to CLEC Coalition's Fourth Set of Data Requests, CLEC Coalition 4-2.

1 **B. IDENTIFICATION OF INDIRECT COSTS FOLLOWING THE**
2 **METHOD OF VZ-VA AND VZ-DC**

3 ***I. Account 612300 - Office Equipment Expenses; Account 6723 –***
4 ***Human Resources; and Account 6728 – General & Administrative***

5 **Q. DID VZ-MA RECOGNIZE ANY AVOIDED COSTS ASSOCIATED WITH**
6 **THESE ACCOUNTS?**

7 A. No, it did not.

9 **Q. DID VZ-VA AND VZ-DC RECOGNIZE AVOIDED COSTS ASSOCIATED**
10 **WITH THESE ACCOUNTS?**

11 A. Both companies identified avoided costs in General & Administrative expenses
12 (account 6728), but neither company identified avoided Office Equipment or
13 Human Resource expenses in their cost studies. The Wireline Competition
14 Bureau adopted AT&T's recommendation and ordered VZ-VA to remove the
15 appropriate percentage of expenses from Office Equipment (account 6123) and
16 Human Resources (account 6723) that are associated with expenses in account
17 6612 (Sales expenses).⁴² The District of Columbia Public Service Commission
18 did not require VZ-DC to make these adjustments.

⁴² See *In the Matter of Petition of WorldCom, Inc. Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia State Corporation Commission Regarding Interconnection Disputes with Verizon Virginia Inc., and for Expedited Arbitration, In the Matter of Petition of AT&T Communications of Virginia Inc. Pursuant to Section 252(e)(5) of the Communications Act for Preemption of the Jurisdiction of the Virginia Corporation Commission Regarding Interconnection Disputes With Verizon Virginia Inc.*, CC Docket Nos. 00-218 and 00-251, Memorandum Opinion and Order, 18 FCC Rcd 17722, 17990-91, DA 03-2738, ¶ 693 (Aug. 29, 2003) ("*Virginia Arbitration*").

1
2 **Q. HOW DID YOU ADJUST VZ-MA'S AVOIDED COST STUDY TO**
3 **REFLECT THE AVOIDED COSTS ASSOCIATED WITH THESE**
4 **ACCOUNTS?**

5 A. We calculated the ratio of avoided direct costs to total direct costs and used that
6 percentage to determine avoided indirect costs for these three accounts consistent
7 with the methodology used by both VZ-VA and VZ-DC for account 6728. VZ-
8 VA noted that "... the general and administrative expenses (Account 6728) that
9 vary directly with the number of employees (e.g. sickness and disability
10 payments) are avoided based on the ratio of avoided intrastate direct expenses to
11 total intrastate expenses."⁴³ We applied that same methodology in Exhibit
12 AA/WF-3 using the same direct and indirect cost classifications as VZ-VA and
13 VZ-DC did in their avoided cost studies; however, we did not limit the calculation
14 to intrastate costs only. We then multiplied the resulting avoided cost factor by
15 the total unseparated expenses for each account to calculate avoided costs.
16 Separate avoided cost percentages were calculated for inclusion and exclusion of
17 Operator Services. These avoided cost percentage calculations are on Excel row
18 52 in tab WP3, Avoided Exp by Acct, and the avoided expense calculations for
19 each account are on Lines 14, 47, and 48. These are noted as Adjustment No. 6.

⁴³ See FCC Docket Nos. 00-218, 00-249, 00-251, Verizon Virginia Inc.'s *Panel Testimony on Unbundled Network Elements and Interconnection Costs*, at p. 359 (dated July 31, 2001), excerpt of relevant pages attached hereto as Exhibit AA/WF-4.

1

2

2. Account 612400 - General Purpose Computer Expenses

3

**Q. DID VZ-MA RECOGNIZE ANY AVOIDED COSTS ASSOCIATED WITH
THIS ACCOUNT?**

4

5

A. No, it did not.

6

7

**Q. DID VZ-VA AND VZ-DC RECOGNIZE AVOIDED COSTS ASSOCIATED
WITH THIS ACCOUNT?**

8

9

A. Yes. We reviewed the avoided cost studies for both companies provided in

10

response to CLEC 1-16 and found that they used the same avoided cost

11

percentage of 45.38% derived from a regional analysis of general computer

12

expenses in the Verizon North (former NYNEX) states.⁴⁴

13

14

**Q. HOW DID YOU ADJUST VZ-MA'S AVOIDED COST STUDY TO
REFLECT THE AVOIDED COSTS ASSOCIATED WITH THIS
ACCOUNT?**

15

16

17

A. Since VZ-MA conducted no analysis on avoided general purpose computer costs

18

in this proceeding, we used the avoided cost percentage from the VZ-VA and VZ-

19

DC studies as a placeholder. This value was entered directly onto WP3, Avoided

20

Exp by Acct, Line 15 within Exhibit AA/WF-3 as Adjustment No. 7.

⁴⁴ Verizon North is part of the Verizon East region which contains both the former NYNEX and Bell Atlantic operating companies. Massachusetts is one of the states within Verizon North.

1

2

3

4

**3. Sub-Account 67110500 - Executive Expenses – Marketing
Operations – C and Sub-Account 67111500 - Executive Expenses -
Customer Services-C**

5

**Q. DID VZ-MA RECOGNIZE ANY AVOIDED COSTS ASSOCIATED WITH
THESE ACCOUNTS?**

6

7

A. No, it did not.

8

9

**Q. DID VZ-VA AND VZ-DC RECOGNIZE AVOIDED COSTS ASSOCIATED
WITH THESE ACCOUNTS?**

10

11

A. Yes. Both VZ-VA and VZ-DC removed the executive costs associated with
avoided sales and customer service costs. They multiplied the avoided cost
percentages from Sales (account 6612) by the amount in sub-account 67110500 -
Executive Expenses – Marketing Operations – C. The avoided cost percentage
from Customer Services (account 6623) was multiplied by the amount in sub-
account 67111500 - Executive Expenses -Customer Services-C. Verizon assumed
there was a linear relationship between the direct expenses in the Sales and
Customer Services and the related Executive expenses.

12

13

14

15

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17

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19

1 **Q. HOW DID YOU ADJUST VZ-MA'S AVOIDED COST STUDY TO**
2 **REFLECT THE AVOIDED COSTS ASSOCIATED WITH THIS**
3 **ACCOUNT?**

4 **A.** Since VZ-MA did not use function code-level expenses in its avoided cost study,
5 we cross-referenced the sub-account level expenses detail on tab Expense by Sub-
6 account in Exhibit AA/WF-3 with the function code level detail in the VZ-VA
7 and VZ-DC avoided cost studies to identify the comparable VZ-MA Executive
8 expense sub-accounts. We applied the avoided cost percentages from Sales
9 (account 6612) on Line 39, and Customer Services (account) 6623 on Line 43, tab
10 WP3, Avoided Exp by Acct to these two sub-accounts. This comprises
11 Adjustment No. 8.

**VII. VERIZON'S SALES AGENT COMMISSIONS SHOULD
ESTABLISH THE LOWER LIMITS IN SETTING RESALE
DISCOUNTS FOR CLECS**

**Q. DOES VERIZON HAVE AN AGENCY PROGRAM UNDER WHICH
SALES AGENTS RECEIVE COMMISSIONS THAT ARE [BEGIN
VERIZON CONFIDENTIAL] [REDACTED]
[REDACTED]? [END VERIZON
CONFIDENTIAL]**

**A. Yes. Verizon has a sales agency program⁴⁵ under which qualified agents earn
compensation from Verizon for a variety of sales, [BEGIN VERIZON
CONFIDENTIAL] [REDACTED]. [END
VERIZON CONFIDENTIAL] While the level of compensation earned by sales
agents depends on a number of factors,⁴⁶ [BEGIN VERIZON
CONFIDENTIAL] [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED] [END VERIZON CONFIDENTIAL]⁴⁷**

⁴⁵ See VZ-MA's response to CLEC Coalition's First Set of Data Requests, CLEC Coalition 1-24.

⁴⁶ See VZ-MA's response to CLEC Coalition's First Set of Data Requests, CLEC Coalition 1-24, Attachment II, page 5 and Attachment III.

⁴⁷ *Id.*

1

2 **Q. ARE SALES COMMISSIONS AND RESALE DISCOUNTS**
3 **CONCEPTUALLY RELATED?**

4 A. Yes. In general, companies use sales agents because it helps them to curtail the
5 size of their own sales force and limit retail related activities. As such, the sales
6 commissions that companies pay are in large part reflective of the retail related
7 expenses that they avoid by not having to hire (or expand) their own sales force.
8 In a real sense, therefore, the commissions paid to sales agents are conceptually
9 analogous to the resale discounts, such as the ones to be determined by the
10 Department in the current proceeding. In both instances, the critical issue is: how
11 much does a company, such as Verizon, “save” (i.e., how many costs does
12 Verizon avoid) by not having to engage in certain retail related activities?

13

14 **Q. SHOULD THE PERCENTAGE RESALE DISCOUNT FOR CLECS**
15 **GENERALLY BE HIGHER THAN THE SALES COMMISSIONS**
16 **EXTENDED BY VERIZON TO INDIVIDUAL SALES AGENTS?**

17 A. Yes. The reason is twofold. First, CLECs that resell are in effect sales agents that
18 retail VZ-MA’s services. But, in addition to engaging in sales activities, the
19 CLECs also assume a number of other responsibilities, which sales agents may
20 not. For example, the CLECs perform a variety of customer services, such as
21 initiating service orders, maintaining and billing customer accounts, collecting
22 and investigating customer accounts, including collecting revenues, reporting

1 receipts, administering collection treatment, and customer contacts for bill
2 adjustments, etc. That is, the CLECs may be expected to perform many more of
3 retail related activities for VZ-MA than Verizon's sales agents, and thus resale by
4 CLECs should warrant a higher discount (which, in a sense, is the CLECs'
5 commission).

6
7 Second, given the larger size of their operations and marketing activities, CLECs
8 will generally be able to resell much higher volumes than individual agents, no
9 matter how talented the agents may be. Because commissions are volume
10 driven,⁴⁸ one would expect the resale discounts for CLECs to be larger than the
11 percentage sales commissions for individual agents. As noted in Section I.B.2
12 *supra*, CLEC resellers accounted for approximately [BEGIN VERIZON

13 CONFIDENTIAL] [REDACTED]

14 [REDACTED]⁴⁹ [REDACTED]

15 [REDACTED]⁵⁰ [END VERIZON

16 CONFIDENTIAL]

48 See E-mail from Bruce Cohen, Associate General Counsel, Verizon, to Philip Macres, Bingham
McCutchen LLP (dated Sept 8, 2006) (attached hereto as Exhibit AA/WF-5), pp. 1-2.

49 See VZ-MA response to CLEC Coalition's First Set of Data Requests, CLEC Coalition 1-15,

50 See E-mail from Bruce Cohen, Associate General Counsel, Verizon, to Philip Macres, Bingham
McCutchen LLP (dated Sept 8, 2006) (attached hereto as Exhibit AA/WF-5). [BEGIN VERIZON
CONFIDENTIAL] [REDACTED] [END
VERIZON CONFIDENTIAL]

1 **Q. UNDER THE AVOIDED COST STANDARD OF SECTION 252(d)(3),**
2 **SHOULD THE RESALE DISCOUNT BE HIGHER THAN VERIZON’S**
3 **SALES COMMISSIONS?**

4 **A. Yes. The reason is simple: if a CLEC resells VZ-MA’s services, and, therefore, a**
5 **Verizon sales agent did not make the sale, then VZ-MA avoids having to pay the**
6 **sales agent a commission (and in addition, it avoids billing and collection and**
7 **other costs that CLECs incur but sales agents do not incur). At a minimum,**
8 **therefore, the CLEC is entitled to the sales commission that Verizon avoids.**
9

10 **Q. IS IT POSSIBLY ANTICOMPETITIVE FOR VZ-MA TO OFFER SALES**
11 **AGENTS [BEGIN VERIZON CONFIDENTIAL] [REDACTED] [END**
12 **VERIZON CONFIDENTIAL] COMMISSIONS THAN CLECS?**

13 **A. Yes. One could reasonably argue that VZ-MA, by offering sales agents a**
14 **[BEGIN VERIZON CONFIDENTIAL] [REDACTED] [END VERIZON**
15 **CONFIDENTIAL] commission than CLECs, is engaging in anticompetitive**
16 **pricing. That is, by charging CLECs a [BEGIN VERIZON CONFIDENTIAL]**
17 **[REDACTED] [END VERIZON CONFIDENTIAL] wholesale price than its own**
18 **affiliated sales agents, VZ-MA is price discriminating.**
19

1 **VIII. CONCLUSION**

2 **Q. HAVE YOU ALREADY PROVIDED A SUMMARY OF YOUR**
3 **TESTIMONY?**

4 **A. Yes. We have provided a summary of our testimony at the beginning of our**
5 **testimony.**

6

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 **A. Yes, it does.**